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No. 05-130

IN THE

# Supreme Court of the United States

EBAY INC. AND HALF.COM, INC.,

*Petitioners,*

v.

MERCEXCHANGE, L.L.C.,

*Respondent.*

**On Writ Of Certiorari**
**To The United States Court Of Appeals**
**For The Federal Circuit**

## BRIEF OF AMERICAN INNOVATORS' ALLIANCE AS *AMICUS CURIAE* IN SUPPORT OF PETITIONERS


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## BRIEF OF AMERICAN INNOVATORS' ALLIANCE AS *AMICUS CURIAE* IN SUPPORT OF PETITIONERS

## INTEREST OF *AMICUS CURIAE*[1]

The American Innovators' Alliance ("Alliance") is a coalition of United States high-technology companies that includes Intel Corporation ("Intel"), Micron Technology, Inc. ("Micron"), Microsoft Corporation ("Microsoft"), and Oracle Corporation ("Oracle"). As innovators and intellectual property holders in the software and hardware industries, the Alliance's members rely upon the protections of the United States patent laws and believe that a strong patent system is important to the vitality of today's expanding knowledge-based economy. The Alliance's members are concerned, however, that the Federal Circuit's automatic-injunction rule in patent infringement actions discourages investments by the most innovative creators and implementers of technology, and ultimately reduces competition to the detriment of consumers.

Intel is the world's largest semiconductor manufacturer and is also a leading manufacturer of computer, networking, and communications products.

Micron is one of the world's leading semiconductor manufacturers. It produces an array of memory storage devices and image sensors, and its products can be found in everything from personal computers to digital cameras and network servers.

Microsoft is the world's largest software company. It provides support for virtually every type of computing de-

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[1] Pursuant to this Court's Rule 37.3(a), letters of consent from all parties to the filing of this brief have been submitted to the Clerk. Pursuant to this Court's Rule 37.6, *amicus* states that this brief was not authored in whole or in part by counsel for any party, and that no person or entity other than *amicus* or its counsel made a monetary contribution to the preparation or submission of this brief.

vice, including servers, personal computers, and home entertainment systems. Its products include the Windows operating system and the Xbox videogame system.

Oracle is a global leader in information management. It sells software and services that enable organizations to manage their businesses worldwide. Oracle was among the first software companies to make its applications available over the Internet.

Together, the members of the Alliance have more than 210,000 employees and a market valuation of more than $480 billion.

The members of the Alliance each hold numerous patents. Indeed, Intel and Micron were among the ten most-prolific producers of patents in the United States in 2004 and 2005. Because the Alliance's members frequently litigate patent infringement suits as both plaintiffs and defendants, they have a vital interest in ensuring that the patent laws are applied in a manner that strikes a reasonable balance between protecting property rights and promoting innovation. The members of the Alliance believe that the Federal Circuit's automatic-injunction rule upsets the balance that Congress struck in the Patent Act, tipping the scale in favor of non-practicing patent holders, with deleterious effects on innovation.

## STATEMENT

1. This case has profound implications for technological innovation in the United States. The patent system is the foundation for the United States's global leadership position in technological development. The promise of a patent and possible royalty payments affords inventors a significant incentive to pursue new discoveries. These incentives flourished where courts applied traditional equitable principles to ensure that patent laws were enforced in a manner that "promote[d] the Progress of Science and the useful Arts," U.S. Const. art. I, § 8, and awarded injunctions only after carefully

considering the public interest considerations at stake. Recently, however, the Federal Circuit has opened the door to abusive patent litigation by replacing traditional equitable principles with an inflexible and sweeping presumption that an injunction will issue virtually automatically against any patent infringer. Under this regime, patent rights actually stifle innovation and significantly reduce incentives to invest in manufacturing and research-and-development efforts in the United States.

The Federal Circuit's automatic-injunction rule is contrary to the plain language of the patent laws. The original Patent Act of 1790 authorized only damages and forfeiture remedies for infringement. 1 Stat. 109. The Patent Acts of 1793, 1 Stat. 318, and 1800, 2 Stat. 37, altered the measure of damages, but still did not provide for injunctive relief. In 1819, Congress gave trial courts the discretion to issue patent injunctions in accordance with the traditional principles of equity:

> [Federal courts] shall have authority to grant injunctions, *according to the course and principles of courts of equity*, to prevent the violation of the rights of any authors or inventors secured to them by any laws of the United States, *on such terms and conditions as the said courts may deem fit and reasonable*[.]

3 Stat. 481, 481-82 (1819) (emphases added). This provision, with only cosmetic alterations, has survived to this day and continues to treat injunctions as a discretionary remedy, to be issued in accordance with traditional equitable principles: "[The federal courts] may grant injunctions *in accordance with the principles of equity* to prevent the violation of any

right secured by patent, *on such terms as the court deems reasonable*." 35 U.S.C. § 283 (emphases added).[2]

Section 283 reflects the long-standing rule that an injunction "is not a remedy which issues as of course." *Weinberger v. Romero-Barcelo*, 456 U.S. 305, 311 (1982) (internal quotation marks omitted). The basis for injunctive relief "has always been irreparable injury and the inadequacy of legal remedies." *Id.* at 312. But even when those factors are present, injunctions do not issue automatically. Courts of equity must also consider "the public consequences in employing the extraordinary remedy of injunction." *Id.* "Flexibility rather than rigidity" is the hallmark of equitable relief. *Id.* (quoting *Hecht Co. v. Bowles*, 321 U.S. 321, 329 (1944)).

2. Petitioners eBay, Inc., ("eBay") and Half.com, Inc., ("Half.com") operate websites that allow sellers to list various goods, and buyers to search and purchase those goods. Although eBay is best-known for its auction feature, eBay's website also allows buyers to purchase selected goods at a fixed, listed price. eBay gives sellers the option of a traditional auction that runs for several days, a fixed-price immediate sale, or a hybrid that includes a multi-day auction and a "Buy Now" option at a higher price for immediate sale. Half.com, a wholly owned subsidiary of eBay, also offers fixed-price purchases on its website.

MercExchange, L.L.C., ("MercExchange") exists solely to license patents. It neither practices its patents nor engages in any other line of business. Pet. App. 54a. It holds two valid patents pertaining to fixed-price sale technology.

3. MercExchange filed suit against eBay and Half.com in the United States District Court for the Eastern District of

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[2] Legislative history further confirms that section 283 simply restated then-existing law. *See* S. Rep. No. 1979, at 2423 (1952) (Section 283 "is the same as the provision which opens [Revised Statutes] 4292 with minor changes in language").

Virginia, alleging willful infringement of three patents. Pet. App. 54a. Before trial, the district court found that one patent was invalid because of an inadequate written description. A trial was conducted on MercExchange's claims of infringement under the two remaining patents, and a jury found eBay and Half.com liable. Pet. App. 29a. The jury assessed $10.5 million in damages against eBay and $19 million against Half.com. Pet. App. 2a-3a.

Upon the finding of infringement, MercExchange sought a permanent injunction prohibiting eBay and Half.com from further infringing upon its patents. The district court weighed the traditional factors governing injunctions, including (1) irreparable injury, (2) the adequacy of a remedy at law, (3) the public interest, and (4) the balance of hardships. Pet. App. 52a-59a. On the basis of that multifactor inquiry, the district court determined that an injunction was not warranted. Pet. App. 59a. The court concluded that MercExchange would not suffer irreparable injury in the absence of a permanent injunction because it did not practice the patents itself but instead had publicly acknowledged that it intended to license them. Pet. App. 54a-55a. The district court also found that money damages could make MercExchange whole and that it therefore had an adequate remedy at law. Pet. App. 56a. The district court further determined that the public interest factor was equally balanced between the plaintiff and the defendants because the traditional interest in protecting patent holders' rights was offset by the growing concern over the rising number of business-method patents. Pet. App. 57a-58a. Finally, the court found that the balance of hardships "tip[ped]" slightly in favor of the defendants. Pet. App. 57a-59a.

The Federal Circuit affirmed the finding that eBay and Half.com had infringed the patents held by MercExchange. The Federal Circuit also held—without reference to the traditional four-factor inquiry—that the district court abused its discretion when it denied MercExchange's request for injunc-

tive relief. The court of appeals therefore reversed the district court's order denying a permanent injunction. The court premised its decision on what it identified as the "general rule . . . that a permanent injunction will issue once infringement and validity have been judged." Pet. App. 26a (quoting *Richardson v. Suzuki Motor Co.*, 868 F.2d 1226, 1246-47 (Fed. Cir. 1989)). The court of appeals stated that the strong presumption in favor of issuing an injunction could be overcome only in "rare instances," as where "an important public need, such as . . . public health," requires that the infringing product or process continue to be marketed. Pet. App. 26a (quoting *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1547 (Fed. Cir. 1995)). Finding that no such "important public need" required that eBay and Half.com be permitted to continue to practice MercExchange's patented business method, the Federal Circuit directed the district court to enter a permanent injunction in favor of MercExchange.

In reaching this conclusion, the Federal Circuit dismissed the possibility that the proliferation of business-process patents had any cognizable impact on the public, stating simply that "this is not the type of important public need that justifies the unusual step of denying injunctive relief." Pet. App. 26a. The court also noted that MercExchange's professed willingness to license its patents and its lack of intent to practice its patents should not "deprive it of the right to an injunction to which it is otherwise *entitled*." Pet. App. 27a (emphasis added). The Federal Circuit's opinion makes clear that, in patent cases, the court has discarded the four-factor test traditionally used to evaluate requests for injunctive relief and replaced it with a "presumption" that patentees are "entitled" to a permanent injunction in all but the most "exceptional" circumstances.

## SUMMARY OF ARGUMENT

For centuries, the patent laws have encouraged useful innovation and discovery, fostering both the Industrial Revolu-

tion and the computer age. But the Federal Circuit's automatic-injunction rule has transformed patents into a powerful tool for litigation abuse. By disregarding traditional equitable considerations such as the balance of hardships and the public interest, the Federal Circuit has made it possible for one patent—no matter how trivial—to be used to shut down an entire business. Such a possibility disrupts the careful balance embodied in the Patent Act. Ultimately, it stifles innovation and poses a significant threat to high-tech businesses and the strength of the U.S. economy as a whole.

The problem of patent abuse is not a recent development. Indeed, the historical prevalence of such abuse played a significant role in the emergence of modern-day patent law. In seventeenth-century England, the Crown was willing to sell to the highest or most favored bidder a monopoly on almost any "invention," and patents thus became associated with corruption. The Founders were well aware of this history and were wary of the potential for abuse inherent in any monopoly. The Founders therefore believed that patents should be granted only when necessary to "promote the Progress of Science and the useful Arts." U.S. Const. art. I, § 8. Accordingly, early patent statutes did not authorize courts to issue injunctions as a remedy for infringement.

When Congress finally granted courts the potent power to issue injunctions as a remedy against patent infringement, it explicitly required courts to consider traditional equitable principles when contemplating use of that power. Because early American courts understood that patents existed to serve the public interest by encouraging innovation, they denied injunctive relief when it would have imposed a sanction disproportionate to the infringer's culpability or the harm inflicted on the patentee.

The Federal Circuit's automatic-injunction rule is flatly contrary to the text and evident purpose of Section 283, which afforded courts the power to grant injunctive relief, but

also required that such relief be granted only in accordance with principles of equity. The Federal Circuit's stated basis for its automatic-injunction rule—that property rights must necessarily be protected by injunctions—fails because patents are personal property and neither the patent laws nor the common law has ever afforded holders of personal property an entitlement to injunctive relief to cure a trespass. To the contrary, injunctions to protect personal property are considered an extraordinary form of relief and are now—as they have always been—exceedingly rare.

Moreover, the Federal Circuit's abandonment of traditional equitable principles and its resultant disruption of the balance struck by Congress stifles innovation by exacerbating the serious and growing problem of patent "hold-ups." In a patent hold-up, a patent holder threatens to obtain an injunction to shut down an established product line or business. The injunction, or threat of an injunction, enables the patentee to hold an infringer hostage and extract a licensing fee that far exceeds the invention's actual value. The knowledge that an injunction will issue automatically, without regard to the circumstances, has dramatically increased the rewards for initiating a patent hold-up and emboldened patentees to exploit their patents through litigation rather than development and investment. Only restoration of the primacy of traditional principles of equity can restore the balance between the rights of patent holders and the social benefits to be garnered through innovation.

The decision below should be reversed.

## ARGUMENT

### I. PATENTS WERE HISTORICALLY VIEWED AS A LIMITED RIGHT DESIGNED TO PROMOTE INNOVATION.

Much of American patent law—including the provision at issue in this case—dates back to the first few decades of the Nation's existence. The English legal principles and his-

torical experiences that served as the backdrop to enactment of both the Patent Clause and early patent laws therefore shed significant light upon the drafters' intentions. Indeed, many early Americans—like their English counterparts—were deeply suspicious of all monopolies, including patents. These sentiments resulted in a carefully circumscribed system of patent rights and remedies designed to promote innovation and minimize abuse.

### A. Common-Law Courts Were A Check Upon Rampant Patent Abuse.

In seventeenth-century England, patents were issued at the discretion of the Crown, which inevitably led to all manner of abuse. *See* Frank D. Prager, *Historic Background and Foundation of American Patent Law*, 5 AM. J. LEGAL HIST. 309, 309-12 (1961). The Crown defined the concepts of "discovery" and "invention" loosely, and, at various points in time, granted monopolies of trade in such commodities as sweet wine, salt production, knife handles, and playing cards. Ramon A. Klitzke, *Historical Background of English Patent Law*, 41 J. PAT. & TRADEMARK OFF. SOC'Y 615, 626-35 (1959). Many patents were issued for "purely mercenary reasons, [such as] attempting to obtain either a cash payment or a share of the profits from a grant," and the "monopoly system became a system of plunder." *Id.* at 644; *see also* Thomas A. Hill, *Origin and Development of Letters for Patent for Invention*, 6 J. PAT. & TRADEMARK OFF. SOC'Y 405, 407 (1923-24) (patents were frequently abused, and granted for the Crown's profit or even to "courtiers and favorites").

This history of abuse generated a deep public hostility toward patents. 1 WILLIAM ROBINSON, THE LAW OF PATENTS § 14, at 20 (1890). "The inventor was looked upon as a monopolist, dependent for his exclusive rights upon the royal bounty; and his privileges were rigidly confined within the literal meaning of the words by which they were described in his patents." *Id.* § 14, at 21.

Despite this hostility, there was an underlying recognition that patents, properly confined, could serve the public by encouraging innovation and—to that end—Parliament enacted the Statute of Monopolies to rein in the proliferation of patents. Enacted in 1624, the Statute explicitly recognized that an incentive for "true and first inventor[s] and invention[s]" was in the public interest because it encouraged innovation. Hill, *supra*, at 416 (quoting the Statute of Monopolies). The Statute also established the fundamental principle that common-law courts would determine the validity of patents. Thus, although the issuance of patents remained in the monarch's hands, only common-law courts could protect the patentee's rights and determine the appropriate remedy. Klitzke, *supra*, at 649. By controlling the validity and scope of patents and the remedies available, the courts could guard against the excesses that accompanied the ever-growing number of patents.

When adjudicating patent disputes, English common-law courts were guided by the principle that the patent must serve the public interest. The courts developed a number of tests to promote the public interest, such as requiring that a patent actually state a discovery or invention, an early form of the novelty requirement. E. Wyndham Hulme, *The History of the Patent System Under the Prerogative and at Common Law*, 12 L.Q. REV. 141, 151 (1896). Foreigners who brought innovations to England and sought protection from English courts were often required to take on English apprentices to ensure domestic dissemination of the innovation. *Id.* at 145. Moreover, a patent that was not "worked," or put into use, could be voided for failure to provide a public benefit. Klitzke, *supra*, at 643; *see also* E. Wyndham Hulme, *On the Consideration of the Patent Grant Past and Present*, 13 L.Q. REV. 313, 315-17 (1897) (discussing the revocation of a patent for failure to work the patent within one year). This requirement grew out of the recognition that an invention that

lay fallow necessarily failed to benefit the public. Klitzke, *supra*, at 643.

The English courts also protected the public interest through a flexible remedial scheme. "When a party applie[d] for the aid of the court, [in a patent case], . . . great latitude and discretion [were] allowed to the court in dealing with the application." *Bacon v. Jones*, 4 Mylne & Craig 433, 436 (1839) (quoted in 2 JOSEPH STORY, COMMENTARIES ON EQUITY JURISPRUDENCE, AS ADMINISTERED IN ENGLAND AND AMERICA § 934, at 122 n.3 (rev. ed. 1877) [hereinafter STORY, COMMENTARIES ON EQUITY]). The courts possessed the discretion to develop remedies specific and appropriate to the facts of each case. *Id.*

### B. The Founders Shared The English Suspicion Of Monopolies.

Like their English counterparts, early Americans had an "instinctive aversion to monopolies." *Graham v. John Deere Co.*, 383 U.S. 1, 7 (1966). This suspicion was grounded in experience—both the English Crown and the colonial governments granted monopolies to favored interests, in a practice that was widely considered corrupt. The Framers' decision to authorize Congress to "secur[e] for limited Times to . . . Inventors the exclusive right to . . . Discoveries," U.S. Const. art. 1, § 8, therefore met with sharp criticism from those Americans who viewed all monopolies with disdain. George Mason, one of Virginia's delegates to the Constitutional Convention, identified Congress's authority to "grant monopolies in trade and commerce" as one of the reasons for his refusal to sign the Constitution. 2 AMERICAN MUSEUM, at 534-36 (1787). The New York constitutional ratifying convention urged that the Constitution be amended to provide "[t]hat the congress [may] not grant monopolies, or erect any company with exclusive advantages of commerce." 4 AMERICAN MUSEUM, at 156 (1788). Massachusetts, New Hampshire, and North Carolina also urged an amendment to

strip Congress of the power to create monopolies. 6 AMERICAN MUSEUM, at 303 (1789).

Thomas Jefferson, who—at least at the time of the Founding—was deeply distrustful of patents, explained that "[t]hough the interposition of government, in matters of invention, has its use, yet it is in practice so inseparable from abuse, that [Americans] think it better not to meddle with it." Letter from Thomas Jefferson to Jeudy de L'Hommande (Aug. 9, 1787), *in* 12 THE PAPERS OF THOMAS JEFFERSON 11 (Julian P. Boyd et al. eds., 1956). After the Constitution had been ratified, Jefferson advocated an amendment to remove congressional authority to issue patents. *See* Letter from Thomas Jefferson to James Madison (July 31, 1788), *in* 1 THE REPUBLIC OF LETTERS 545 (James Morton Smith ed., 1995) ("[T]he benefit even of limited monopolies is too doubtful to be opposed to that of their general suppression.").

Even after the Constitution was ratified, the Founders' antipathy for monopolies led them to explore means other than patents to encourage innovation. Alexander Hamilton, for example, proposed using "pecuniary rewards" as an alternative to granting patents. *See* Edward C. Walterscheid, *Patents and Manufacturing in the Early Republic*, 80 J. PAT. & TRADEMARK OFF. SOC'Y 855, 861-63 (1998). President Washington embraced that idea, and urged Congress to establish Boards to award direct payments for agricultural innovations. George Washington, *Eighth Annual Message to Congress* (Dec. 7, 1796), *in* GEORGE WASHINGTON'S WRITINGS 978, 982 (John H. Rhodehamel ed., 1997). This alternative proposal for rewarding innovation gained little support, however, because the new federal government was still short of money, and patents had the virtue of costing nothing. EDWARD C. WALTERSCHEID, THE NATURE OF THE INTELLECTUAL PROPERTY CLAUSE: A STUDY IN HISTORICAL PERSPECTIVE 91-92 (William S. Hein & Co. 2002).

Ultimately, Congress settled upon a system of patents to reward inventors, embracing patents for the same reason as the English: patents, properly regulated, serve the public interest by promoting discovery and innovation. As Justice Story explained:

> [The Patent Clause] was beneficial . . . to the public, as it would promote the progress of science and the useful arts, and admit the people at large, after a short interval, to the full possession and enjoyment of all writings and inventions without restraint.

3 JOSEPH STORY, COMMENTARIES ON THE CONSTITUTION OF THE UNITED STATES § 1147, at 48-49 (1833) [hereinafter STORY, COMMENTARIES ON THE CONSTITUTION].

Even Jefferson eventually came to recognize the public benefits that derive from patents, explaining that patents are an "encouragement to men to pursue ideas which may produce utility." Letter from Thomas Jefferson to Isaac McPherson (Aug. 13, 1813), *in* XIII THE WRITINGS OF THOMAS JEFFERSON 334 (Andrew A. Lipscomb et al. eds., 1903).[3] At the time, however, patents were viewed as conveying the exclusive right to the *profits* from an invention, not necessarily the exclusive right to *use* an invention. *See* Robinson, *supra*, § 898 ("The interest of the patentee is represented by the emoluments which he does or might receive from the practice

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[3] By this time, Jefferson spoke as the chief architect of the American patent system. Ironically, after initially opposing the Patent Clause altogether, Jefferson went on to be "the first administrator of our patent system" and its "moving spirit." *Graham*, 383 U.S. at 7 (internal quotation marks omitted). As Secretary of State, Jefferson, along with the Secretary of War and the Attorney General, was responsible for issuing the first United States patents. *Id.* Jefferson was not merely an administrator; he advanced developments in patent law that are still in practice today, such as the novelty and non-obviousness requirements. *Id.* at 7-8. He also played a key role in the drafting of the first patent statute, the Patent Act of 1790, and was a noted inventor himself. *Id.* at 7.

of the invention by himself or others."). As Jefferson explained, "[s]ociety may give an exclusive right to the *profits* arising from [patents], as an encouragement to men to pursue ideas which may produce utility." XIII THE WRITINGS OF THOMAS JEFFERSON, *supra*, at 333-34 (emphasis added); *see also* 3 STORY, COMMENTARIES ON THE CONSTITUTION § 1147, at 49 ("[T]he only boon, which could be offered to inventors to disclose the secrets of their discoveries, would be the exclusive right and profit of them, as a monopoly for a limited period.").

The Founders therefore carefully tailored early patent laws to extend monopolies only as far as necessary to foster innovation. The Federal Circuit's automatic-injunction rule disregards the Founders' emphasis on "promot[ing] the Progress of Science," U.S. Const. art. I, § 8, and instead has had the effect of rewarding companies that amass patents without having any intention of actually practicing them. Far from promoting scientific progress, injunctions in favor of such patent holders stifle innovation by effectively placing patented technology out of the reach of both researchers and the public. Neither the Constitution's Framers nor the drafters of 35 U.S.C. § 283—all of whom were keenly aware of the dangers associated with monopolies—would have intended for patent rights to impede technological progress or economic development.

## II. THE FEDERAL CIRCUIT'S AUTOMATIC-INJUNCTION RULE DISREGARDS FUNDAMENTAL PRINCIPLES OF EQUITY.

In 1819, when Congress afforded courts the discretion to issue injunctions in patent cases, it explicitly linked such relief to traditional equitable principles. 3 Stat. 481, 481 (1819) ("the circuit courts of the United States . . . shall have authority to grant injunctions, according to the course and principles of courts of equity, to prevent the violations of the rights of any authors or inventors"). Under those principles, an injunc-

tion would issue in patent cases only when it was the most appropriate means of achieving justice between the parties and promoting the public interest. Certainly, a patent holder did not have an automatic right to injunctive relief against an infringer. As Justice Story stated, "In cases . . . where a patent has been granted for an invention, it is not a matter of course for courts of equity to interpose by way of injunction." 2 STORY, COMMENTARIES ON EQUITY § 934, at 121-22. In determining whether to grant an injunction, Justice Story continued, a court should consider whether "the patent has been granted for some length of time"; whether "the patentee has put the invention into public use"; and whether the patentee "has had an exclusive possession of it under his patent for a period of time." *Id.*

The Federal Circuit's automatic-injunction rule disregards both this history and the statutory command of 35 U.S.C. § 283 that courts issue injunctions only in accordance with equitable principles. In place of the traditional equitable factors, the Federal Circuit has substituted what it refers to as the "general rule . . . that a permanent injunction will issue once infringement and validity have been judged." Pet. App. 26a. In so doing, the Federal Circuit has inverted the traditional test by requiring there to be "exceptional" circumstances justifying "depriv[ing]" the patent holder of a "right to an injunction" to which it is purportedly "entitled." Pet. App. 26a-27a. Such an approach finds no support in either this Court's jurisprudence or historically rooted notions of equity.

### A. This Court Has Consistently Rejected Lower-Court Efforts To Promulgate Automatic-Injunction Rules.

This Court has repeatedly emphasized that automatic-injunction rules are incompatible with the case-by-case inquiry demanded by traditional equitable principles. In *Hecht Co. v. Bowles*, 321 U.S. 321 (1944), for example, this Court

held that violations of the Emergency Price Control Act were not automatically subject to an injunction. The Act imposed price controls in response to widespread shortages and inflation sparked by World War II. The Act provided that, upon a violation, "a permanent or temporary injunction, restraining order, or other order *shall* be granted without bond." *Id.* at 322 (quoting the Emergency Price Control Act of 1942, 56 Stat. 23) (emphasis added). Despite the dire economic situation, and the seemingly mandatory language of the Act, this Court refused to countenance an automatic-injunction rule or even a presumption in favor of an injunction.

Effectively requiring a clear statement by Congress to override long-standing principles of equity, this Court declared:

> We cannot but think that if Congress had intended to make such a drastic departure from the traditions of equity practice, an unequivocal statement of its purpose would have been made . . . . We are dealing here with the requirements of equity practice with a background of several hundred years of history.

*Hecht Co.*, 321 U.S. at 329. The "essence of equity jurisdiction," the Court continued, "has been the power of the Chancellor to do equity and to mould each decree to the necessities of the particular case. Flexibility rather than rigidity has distinguished it." *Id.*

In *Amoco Production Co. v. Village of Gambell*, 480 U.S. 531 (1987), this Court reaffirmed *Hecht*'s conclusion that automatic-injunction rules cannot be reconciled with traditional equitable principles. *Amoco* reversed a Ninth Circuit decision holding that "injunctive relief is the appropriate remedy for a violation of an environmental statute absent rare or unusual circumstances." *Id.* at 541 (internal quotation marks omitted). Although this Court agreed with the Ninth Circuit that environmental damage is, "by its nature," often

irreparable, it nevertheless deemed the Ninth Circuit's presumption in favor of injunctive relief to be "contrary to traditional equitable principles." *Id.* at 545. The Court explained that courts considering whether to grant injunctive relief must undertake a fact-specific balancing of traditional equitable factors.

Similarly, in *Weinberger v. Romero-Barcelo*, 456 U.S. 305 (1982), this Court reversed a First Circuit decision that entered an injunction after finding a violation of the Clean Water Act. At issue were recurring United States naval training exercises on the Puerto Rican island of Vieques. These exercises resulted in live fire rounds and ordnance being dropped on beaches and into the waters off the island's coast. *Id.* at 307. Despite the government's concession that the Clean Water Act's plain terms had been violated, this Court relied upon *Hecht* to hold that "a federal judge sitting as chancellor is not mechanically obligated to grant an injunction for every violation of law." *Id.* at 313. The Court explained that "[a]n injunction [wa]s not the only means of ensuring compliance" with the Clean Water Act because the Act provided for fines and criminal penalties. *Id.* at 314.

The Federal Circuit's automatic-injunction rule is indistinguishable from the rules this Court rejected in *Hecht* and its progeny. Even where the public interest is truly overwhelming—as in times of war or where the environment is being irreparably harmed—equitable principles require case-by-case, fact-specific adjudication. As Congress provided in the Patent Act, an injunction is not the only means of remedying the infringement of a patent right because the Act also provides for monetary damages, which can fairly and adequately compensate a non-practicing patent holder in appropriate cases. Congress has even provided for treble damages for the willful infringement of a patent right. 35 U.S.C. § 284.

### B. Violations Of Property Rights Are Not Subject To Automatic Injunctions.

The Federal Circuit justified its rigid automatic-injunction rule by claiming that patents are property and that injunctions issue as a matter of course to protect property. Pet. App. 26a. Specifically, the court has contended that "[i]t is contrary to the laws of property, of which the patent law partakes, to deny the patentee's right to exclude others from use of his property. The right to exclude recognized in a patent is but the essence of the concept of property." *Richardson*, 868 F.2d at 1246-47 (internal quotation marks and citation omitted).

Although patents are indeed a species of personal property, *see* 35 U.S.C. § 261 ("patents shall have the attributes of personal property"), property law affords no support for the Federal Circuit's assertion that entitlement to an injunction is the "essence" of such property. The truth is quite the opposite: "Ordinarily, in cases of chattels, courts of equity will not interfere." 1 STORY, COMMENTARIES ON EQUITY § 708, at 694. Injunctions are issued to protect chattels only in the unusual case where they have some unique quality that makes an award of damages inadequate, such as singular works of art or family heirlooms. *Id.* at § 709, at 694-96. Outside of these rare circumstances, a damages remedy is sufficient and an injunction will not issue.

The Federal Circuit has repeatedly stated that the "exclusive" nature of the patent right compels the use of injunctions. The premise, though, cannot support the conclusion, as there are many "exclusive" rights in law that are not necessarily protected by injunctive relief. Indeed, while patents have always been considered an "exclusive" right, early patents could not be protected by injunctions at all because the original Patent Act of 1790 did not provide for the possibility of injunctive relief. 1 Stat. 109. The only remedies available were actual damages to the patentee and the forfeiture of the

infringer's patented devices. Courts were not afforded the discretion to enjoin the infringer's use of the patent until 1819. 3 Stat. 481, 481-82. And, even today, injunctions are not available in infringement suits against the United States. 28 U.S.C. § 1498. It therefore cannot be said that the right to an injunction is inherent in the nature of patents as "exclusive" rights. The right to a patent injunction derives instead from statute and—as prescribed by that statute—must be exercised in accordance with traditional principles of equity.

Moreover, injunctions are certainly not automatically available to protect the "exclusive" intellectual property rights of copyright and trademark. *See Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 578 n.10 (1994) (recognizing that the "goals of the copyright law . . . are not always best served by automatically granting injunctive relief," and noting that injunctive relief is discretionary under the Copyright Act); *Gucci Am., Inc. v. Daffy's, Inc.*, 354 F.3d 228 (3d Cir. 2003) (affirming the denial of a permanent injunction against a trademark infringer after applying the traditional four-factor test). And although injunctions are less extraordinary in cases involving real property, even there injunctive relief is not simply issued automatically. *See Harrisonville v. W.S. Dickey Clay Mfg. Co.*, 289 U.S. 334, 338 (1933) (denying injunctive relief where a nuisance was injuring land); *Intel Corp. v. Hamidi*, 71 P.3d 296, 303 (Cal. 2003) ("Even in an action for trespass to real property . . . the extraordinary remedy of injunction cannot be invoked without showing the likelihood of irreparable harm.") (internal quotation marks omitted).

Thus, the fact that patents are an exclusive property right does not provide justification for the Federal Circuit's auto-

matic-injunction rule, which has no equivalent in any other area of property law.[4]

### C. The Automatic-Injunction Rule Imposes A Disproportionately Harsh Sanction On Inadvertent Infringers.

The traditional function of equity has been to reach a "nice adjustment and reconciliation" between the parties. *Hecht Co.*, 321 U.S. at 329. The court "balances the conveniences of the parties and possible injuries to them according as they may be affected by the granting or withholding of the injunction." *Yakus v. United States*, 321 U.S. 414, 440 (1944); *see also McCrary v. Pa. Canal Co.*, 5 F. 367 (C.C.E.D. Pa. 1880) (denying a patent injunction because the cost to the defendant would far exceed the benefit to the plaintiff). Although this "reconciliation" is often referred to as the "balance of hardships," it also implicates a balance of the parties' rights with their culpability. Indeed, the intent of a wrongdoer and the degree of harm inflicted have always been critical to determining a just and equitable remedy because "[t]he historic injunctive process was designed to deter, not to punish." *Hecht Co.*, 321 U.S. at 329. The automatic-injunction rule entirely disregards this important consideration.

Even the historically less-flexible common law looked to a wrongdoer's intent when determining an appropriate remedy. This was reflected in the distinct forms of action for harms to chattels, which prescribed different remedies based

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[4] The suggestion that application of traditional principles of equity will somehow effect a compulsory licensing regime that deprives patent holders of all meaningful property rights is baseless. In many cases, the balance of equities may well favor the patent holder and call for injunctive relief. In cases where the equities do *not* favor the patent holder, that the patent holder may be limited to a damages remedy can hardly be said to enact a system of compulsory licensing.

on the wrongdoer's intent. In an action for trespass on chattels, the plaintiff was entitled to recover only the profit obtained by the defendant, and the intent of the defendant was irrelevant to the right of recovery. OLIVER WENDELL HOLMES, THE COMMON LAW 96-98 (1881). But if the plaintiff could prove that the wrongdoing was knowing, or motivated by "actual malevolence," an action in trover would lie, and the plaintiff could recover a punitive measure of damages. *Id.* at 143-44. For instance, in *Maye v. Yappen*, 23 Cal. 306 (1863), the defendants dug up gold-bearing earth from land they mistakenly, but reasonably, believed to be their own. The defendants were held liable for their profits in an action for trespass on chattels. *Id.* at 311-12. The court explained that in cases where intentional wrongdoing was not at issue, a wrongdoer was required to repay only his profits, and the defendants were thus permitted to deduct the reasonable costs of extracting the gold. *Id.* But the court further stated that where a wrongdoer took possession of chattels knowing they were not his own, he would be liable in trover, and no subtraction for costs would be permitted. *Id.* at 310-11. This punitive award—often far out of proportion to the damage suffered by the plaintiff—was justified on the ground that intentional wrongs should be discouraged by severe penalties.

In modern patent litigation, this distinction between intentional and inadvertent wrongdoing is more—not less—relevant. As the number of patents continues to multiply, it is becoming increasingly difficult for innovators to keep track of all patents in a particular area and to avoid inadvertent infringement. *See* Dan L. Burk & Mark A. Lemley, *Policy Levers in Patent Law*, 89 VA. L. REV. 1575, 1614 (2003). Not surprisingly, episodes of inadvertent infringement—"tripping over" a patent—are no longer infrequent. As this case well-illustrates, even highly sophisticated, well-financed corporations can find themselves ensnared in the modern "patent thicket." By compelling district courts to impose the extraordinary remedy of injunctive relief whatever the cir-

cumstances surrounding the infringement, the Federal Circuit has disregarded traditional equitable principles, which have always taken the infringers' intentions into consideration as part of the injunctive relief inquiry. The Federal Circuit's one-size-fits-all approach to patent remedies deems irrelevant all such factual specifics, and thereby frequently imposes burdens on inadvertent infringers far out of proportion to the harm done to the patent holder. Such a result cannot be reconciled with the application of traditional principles of equity mandated by Congress.

### D. There Is A Strong Public Interest In Seeing Innovations Put To Use.

Because automatic-injunction rules are strongly disfavored in the law, a patent holder's eligibility for an injunction must be determined in accordance with traditional equitable principles. One of the most important aspects of that inquiry is whether the patent holder is serving the public interest by putting its patent to use or merely hoarding the patent in an effort to collect license fees. *See R.R. Comm'n of Tex. v. Pullman Co.*, 312 U.S. 496, 501 (1941) ("The history of equity jurisdiction is the history of regard for public consequences in employing the extraordinary remedy of the injunction.").

Indeed, a "patent by its very nature is affected with public interest," *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 343 (1971) (internal quotation marks omitted), and it therefore has long been axiomatic that "courts, and especially courts of equity, may appropriately withhold their aid where the plaintiff is using the right asserted contrary to the public interest." *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488, 492 (1942). In *Morton Salt*, for example, this Court ordered the dismissal of a patent infringement action because the patent holder was using its patent to restrain trade in another, unpatented product by requiring licensees of its patented salt tablet dispenser to use only

its unpatented tablets—rather than those of lawful competitors—in the machine. *Id.* at 491. The Court concluded that the patent holder's attempt to suppress lawful competition was "contrary to public policy" and that "the adverse effect upon the public interest of a successful infringement suit . . . disqualifie[d] [the patent holder] to maintain the suit." *Id.* at 494.

If—as *Morton Salt* demonstrates—use of a patent in a manner contrary to the public interest bars the patent holder from litigating an infringement action, it follows *a fortiori* that such misuse also renders injunctive relief unavailable to the patent holder. 314 U.S. at 494; *see also Blonder-Tongue Labs., Inc.*, 402 U.S. at 343 (the "far-reaching social and economic consequences of a patent . . . give the public a paramount interest in seeing that patent monopolies spring from backgrounds free from . . . inequitable conduct") (internal quotation marks omitted).

Historically, courts have considered it to be in the public interest for patents to be put to use. *See Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 146 (1989) ("the federal patent laws have embodied a careful balance between the need to promote innovation and the recognition that imitation and refinement through imitation are both necessary to invention itself and the very lifeblood of a competitive economy"). Indeed, patents are granted to "promote the Progress of Science and useful Arts," U.S. Const. art. I, § 8, and thus whether a particular invention is being put to beneficial use is highly relevant to whether the public interest is being served. "[T]he inventor does not fulfil [sic] the spirit of his contract unless he introduces his invention into actual use and puts its benefits within the reach of others." Robinson, *supra*, § 43, at 66.

Thus, although Congress has never made it a defense to patent infringement that the patent was not "worked," the use or non-use of a patent has traditionally been relevant to de-

termining whether a patent holder is entitled to injunctive relief. *See Vaughan v. Cent. Pac. R. Co.*, 28 F. Cas. 1107 (C.C.D. Cal. 1877) (denying injunctive relief in an infringement action because the patent holder did not practice the patent, but only licensed it). Justice Story, for example, wrote that courts of equity should look to whether "the patentee has put the invention into public use" when considering whether to grant a patent injunction. 2 STORY, COMMENTARIES ON EQUITY § 934, at 122.

Respondents have erroneously argued that in *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405 (1908), this Court held that the use or non-use of a patent is irrelevant to the patent holder's eligibility for an injunction. Cert. Opp. 3, 16-18. In that case, this Court was asked to decide whether "unreasonable or sinister" non-use of a patent justified withholding an injunction. *Cont'l Paper Bag Co.*, 210 U.S. at 428-29. This Court rejected the factual premise of the argument, and found it "certainly disputable" that unreasonable non-use had occurred. *Id.* at 429. Although subsequent dicta in the opinion is in tension with the traditional equitable focus on a patent's public use, this Court specifically limited its holding to the facts before it and stated that "[w]hether . . . a case cannot arise where, regarding the situation of the parties in view of the public interest, a court of equity might be justified in withholding relief by injunction, we do not decide." *Id.* at 430.[5] Subsequent courts have not interpreted *Continental Paper Bag* as barring consideration of a patent's use during the injunctive relief inquiry, *see Foster v.*

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[5] Because *Continental Paper Bag* expressly left open the possibility that denying injunctive relief might be appropriate in some circumstances, this Court need not overrule that decision in order to reject the Federal Circuit's automatic-injunction rule. To the extent that *Continental Paper Bag* is viewed as an impediment to that result, however, this Court should overrule the decision to that limited extent.

*Am. Mach. & Foundry Co.*, 492 F.2d 1317, 1324 (2d Cir. 1974) (denying a permanent injunction after a finding of patent infringement based in part on the fact that the defendant "manufactures a product; the [plaintiff] does not"), and the Federal Circuit should not have done so here.

## III. APPLYING TRADITIONAL EQUITABLE PRINCIPLES REMAINS THE BEST WAY TO CURB PATENT ABUSE.

The Federal Circuit's automatic-injunction rule stifles innovation by exacerbating the problem of patent "hold-ups." At its most basic level, a hold-up occurs when a business venture is blocked by a patent holder who claims that the product or service is infringing on its patent. What makes patent hold-ups especially pernicious is that they are often initiated after the infringing company has already invested tremendous resources in a business venture that cannot easily be changed to work around the patent. Once the investment is made, the patentee can hold the resulting line of business—and the associated profits and sunk costs—hostage with an injunction. In extreme cases, a hold-up gives the patent holder the power to shut down an entire business. *See, e.g.*, ADAM B. JAFFE & JOSH LERNER, INNOVATION AND ITS DISCONTENTS 113-14 (2004) (injunction granted in Kodak case estimated to have caused 4,500 employees to lose their jobs and $200 million of plant, property, and equipment to be rendered obsolete); *Windsurfing Int'l, Inc. v. AMF, Inc.*, 782 F.2d 995, 1003 & n.12 (Fed. Cir. 1986) (permanent injunction issued even though it would likely put the defendant out of business).

Usually, the patent holder's real goal is not to shut down the targeted business but to extract a licensing fee far in excess of the invention's actual value. The Federal Circuit's automatic-injunction rule is therefore crucial to any hold-up scheme because it confronts infringing companies with the Hobson's choice of paying the requested licensing fee, or being put out of business and losing their entire investment.

Under these circumstances, the patent holder can set the licensing fee so high as to extract much of the profit from the infringing business. *But see Hoe v. Boston Daily Advertiser Corp.*, 14 F. 914, 915 (C.C.D. Mass. 1883) (denying a patent injunction because "the only advantage which the plaintiffs could derive from an injunction, would be to put them in a better situation . . . for the further conduct of the negotiation").

Moreover, a patent hold-up can generate these exorbitant licensing fees even where the patent is only a tiny part of the overall product. Indeed, as technology has grown more complex, the number of patents implicated by even a relatively simple product has multiplied into the hundreds.[6] The reasonable royalty rate for any single invention in these complex, high-tech devices is only a tiny fraction of the overall value. But a patent hold-up creates so much leverage for the patentee that it can demand—and expect to receive—a licensing fee that is far higher than any conceivable reasonable royalty. By facilitating these unjust and extortionate licensing fees, the automatic-injunction rule violates traditional equitable principles.

This case brings the hold-up problem into particularly sharp relief. The Federal Circuit enjoined eBay and Half.com from continuing much of their successful Internet sales business, but only after eBay and Half.com rejected MercExchange's demand for licensing fees that far outstripped the actual value of its two patents. And as the undersigned

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[6] To build a basic DVD video player, for example, a manufacturer must own or license more than three hundred patents. *See* DVD 6C Licensing Agency, Patent List, *at* http://www.dvd6cla.com/patentlist_01.html (last visited Jan. 20, 2006); MPEG-2, Patent List, *at* http://www.mpegla.com/m2/m2-patentlist.cfm (last visited Jan. 20, 2006); Philips, DVD Patents, *at* http://www.licensing.philips.com/licensees/patent/dvd/ (last visited Jan. 21, 2006).

*amicus* can attest, this problem is repeating itself throughout the technology-driven sectors of the U.S. economy.

Holding up an established business has become so lucrative that it has given rise to a cottage industry of hold-up entities known as "patent trolls." Patent trolls are patent-holding companies whose sole activities are litigating and licensing their patents. They account for an ever-growing proportion of patent suits. In some cases, investors hire researchers to develop patents that are then exploited through licensing. More often, these non-practicing patent holders acquire patents from failing businesses at below-market values or from individual inventors. Indeed, even some individuals have entered the patent market by trying to stake out exclusive territory on the periphery of an important industry. *See* Nicholas Varchaver, *The Patent King*, FORTUNE, May 14, 2001, at 203. The one constant is that the non-practicing patent holder exploits its patent through litigation, the threat of litigation, and licensing, rather than through technological development.

Non-practicing patent holders have developed a number of hold-up strategies. *See, e.g.*, Mark A. Lemley & Kimberly A. Moore, *Ending Abuse of Patent Continuations*, 84 B.U. L. REV. 63, 79-81 (2004). One of the most devious is so-called "submarine patenting." The submarine patent is filed with the United States Patent Office, but deliberately kept from issuing through a series of delaying maneuvers in the patent application process. Once a business emerges that allegedly infringes on the submarine patent, the patent troll completes the application process and then immediately sues for infringement of the freshly issued patent. This strategy allows the non-practicing patent holder to spring the infringement suit at the ideal time—after the target business has already made the start-up investment and established a successful product. This is referred to as submarine patenting because it is so difficult for the infringing business to avoid—the patent is effectively concealed from view until the patent holder is ready to initiate a hold-up.

Non-practicing patent holders have proved to be highly sophisticated, often adapting to and circumventing legislative attempts to curb their litigation-based strategies. For example, Congress recently acted to curtail submarine patenting by mandating that all patent applications be published eighteen months after their submission. 35 U.S.C. § 122(b)(1). But this measure has proved largely ineffective for two reasons. First, in rapidly shifting high-tech industries, eighteen months is often sufficient time to initiate a hold-up. Second, non-practicing patent holders have adapted by using the claims amendment process to broaden their claims after the eighteen-month publication occurs. The patent holder simply files a narrow patent claim, waits out the eighteen months, and then, after publication, broadens its claim via amendment to cover the desired technology. *See* FED. TRADE COMM'N, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW AND POLICY ch. 4, at 27-28 (2003). Thus, despite Congress's efforts, submarine patenting remains alive and well. This legislative failure underscores the importance of safeguarding the courts' traditional equitable powers when adjudicating patent disputes.

Moreover, as a practical matter, patent hold-ups are often possible even without sophisticated strategies like submarine patenting. We are long past the days when it was common for a single patent to cover a single product. With so much complexity, it is virtually impossible for a company to be aware of every conceivable patent that could arguably be infringed by its products. Diligent patent trolls have become adept at searching for and acquiring patents that allegedly touch upon some aspect of a popular product, whether by searching for existing patents or by simply taking out new patents on the periphery of existing technology.

The impact of the hold-up problem extends far beyond the few cases actually litigated to final judgment. Patent litigation is complex and highly uncertain, often involving issues well beyond the understanding of the ordinary juror or even

the average judge. They are unlikely to understand the intricacies of a semiconductor, gene splicing, or a network server based on a few hours of testimony from polarized experts. Studies have confirmed that it is especially difficult to defend against a patent infringement suit, where there is a presumption that the patent is valid. *See* Kimberly A. Moore, *Judges, Juries, and Patent Cases—An Empirical Peek Inside the Black Box*, 99 MICH. L. REV. 365, 406 (2000) (study of patent trial decisions between 1983 and 1999 indicating that patentees won 58% of suits overall and 68% of jury trials).

In light of these difficulties, many companies will simply settle rather than face the uncertainties of a bet-the-company trial. Even when a company has a strong invalidity or non-infringement argument, the automatic injunction is so potent a threat that the small possibility of losing at trial is often enough to force a settlement. This, in turn, undermines the patent system generally by preventing challenges to patents of dubious validity.

The bottom line is simple and harsh: Under the Federal Circuit's automatic-injunction rule, any patent holder who can bring a colorable claim of infringement against a successful product has both the means and motivation to engage in "rent-seeking," a practice whereby unproductive and non-contributory claimants use legal or regulatory processes to extract unjust enrichment from productive economic players. The Federal Circuit's presumption of "entitlement" to injunctive relief encourages such practices—which are inimical to the broader interests of society. Money that could go to productive investments is instead diverted to legal fees and settlement payments. The costs of these practices are less innovation or a slower rate of innovation, and higher costs for consumers.

The hold-up problem can be substantially diminished by returning patent law injunctions to their traditional equitable moorings. First, injunctions issued in hold-up situations vio-

late equitable principles because they impose a sanction on infringers that is so harsh as to be punitive and entirely out of proportion to the harm incurred by the patent holder. Second, equity demands that relief be consistent with the public interest, but the public interest is ill-served by the litigation-based strategy of patent trolls, who do little to implement or develop their innovations. When a patent is used only as "a club to be wielded by a patentee to enhance his negotiating stance," *Foster*, 492 F.2d at 1324, courts should exercise the equitable discretion that is mandated by both statute and centuries of tradition to deny an injunction, and should instead implement a remedy such as a reasonable royalty that is more consistent with the public interest.

## CONCLUSION

For the foregoing reasons, the judgment of the court of appeals should be reversed.

Respectfully submitted.

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